

JANUARY 2010

DLA PIPER 2010 HOSPITALITY OUTLOOK SURVEY



EVERYTHING MATTERS



EXECUTIVE SUMMARY

Faced with a marketplace still struggling to regain its footing, the majority of hospitality executives remain bearish, but bullish sentiment has begun to gain momentum.

According to the DLA Piper 2010 Hospitality Outlook Survey, asset values are expected to stabilize during the next 12 months and the majority of respondents expect the US hospitality industry to rebound in 2011.

This growing sense of cautious optimism has been spurred by hospitality executives' strong sense of confidence that current market conditions continue to create "good" buying opportunities, which will be led by investment activity from private equity and foreign investors. Looking abroad, the majority of respondents identified Brazil and China as the most attractive foreign markets for US investors.

Notably, one in four respondents reports having a loan that will mature in the next year, but only a small fraction of these respondents think their loan will move into foreclosure.

HIGHLIGHTS OF DLA PIPER'S 2010 HOSPITALITY OUTLOOK SURVEY INCLUDE:

- 68 percent of respondents describe their 12-month outlook for the US hospitality industry as "bearish," down from 93 percent in 2009.
- 60 percent of respondents expect the US hospitality industry to rebound in 2011.
- 42 percent of respondents expect no significant change in hotel asset values, while 20 percent expect values to rise, a sharp contrast to 2009 when 86 percent expected values to decline.
- 76 percent of respondents think that current market conditions have created good buying opportunities for well-capitalized investors, up from 65 percent in 2009.
- 1 out of 4 respondents has a loan maturing during the next 12 months, but only 4 percent of these respondents think their loan will move into foreclosure.
- Respondents identified Brazil (37 percent) and China (29 percent) as the most attractive foreign markets for US investors.
- The majority of respondents (59 percent) expect that China will be the largest foreign investor in the US hospitality industry.
- 82 percent of respondents think that investment activity in "green" hotels will continue as a long-term trend, but only 23 percent think green hotels are driving consumer choice.



1. HOW WOULD YOU DESCRIBE YOUR 12-MONTH OUTLOOK FOR THE US HOSPITALITY INDUSTRY?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Bullish	35	32.41%	
Bearish	73	67.59%	
Total Responses	108		20% 40% 60% 80% 100%

- 68 percent of respondents describe their 12-month outlook for the US hospitality industry as “bearish,” down from 93 percent in 2009. “Bullish” sentiment rose to 32 percent from 5 percent in 2009.






2. WHAT IS THE PRIMARY REASON FOR YOUR CONFIDENCE?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Expected rebound of US economy	12	35.29%	
Foreign investment in the US market	1	2.94%	
Investment opportunities created by the financial crisis	16	47.06%	
Abundance of equity capital available for investment	5	14.71%	
Total Responses	34		20% 40% 60% 80% 100%

- The majority of bullish respondents attributed their confidence to investment opportunities created by the financial crisis (47 percent) and the expected rebound of the US economy (35 percent).
- Notably, in 2009 only 16 percent of respondents cited a rebound of the US economy as their primary reason for optimism.

Note: This question was only made available to those respondents who described their outlook as “bullish.”




3. WHAT IS THE PRIMARY REASON FOR YOUR LACK OF CONFIDENCE?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Struggling US economy	45	61.64%	
Lack of liquidity (debt or equity)	14	19.18%	
Current operating performance of hotels	8	10.96%	
Time and cost restraints of hotels	0	0%	
Reduced business travel	6	8.22%	
Total Responses	73		20% 40% 60% 80% 100%

- Consistent with responses to the firm’s 2009 survey, the struggling US economy (62 percent) and lack of liquidity (19 percent) remain the top two concerns of “bearish” respondents.






Note: This question was only made available to those respondents who described their outlook as “bearish.”

4. WHERE DO YOU THINK HOTEL ASSET VALUES ARE HEADED DURING THE NEXT 12 MONTHS?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Up	22	20.18%	
No significant change	46	42.20%	
Down	41	37.61%	
Total Responses	109		20% 40% 60% 80% 100%







- Signaling a growing sense of stability in the marketplace, 62 percent of respondents expect either an increase or no significant change in hotel asset values, a sharp contrast to 2009 when 86 percent expected values to decline.

5. WHEN WILL THE US HOSPITALITY INDUSTRY REBOUND?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
2010	6	5.50%	
2011	65	59.63%	
2012	30	27.52%	
2013	4	3.67%	
After 2013	4	3.67%	
Total Responses	109		20% 40% 60% 80% 100%



- The majority of respondents (60 percent) expect the US hospitality industry to rebound in 2011, while 28 percent do not foresee a rebound until 2012.
- Interestingly, according to last year's survey, a similar majority of respondents (59 percent) anticipated that the US hospitality industry would rebound in 2010, but only 5 percent still expect that to occur.

6. WHICH SECTOR OF THE HOSPITALITY INDUSTRY REPRESENTS THE MOST ATTRACTIVE OPPORTUNITY FOR INVESTORS IN THE NEXT 12 MONTHS?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Economy/budget	3	2.75%	
Midscale	30	27.52%	
Upscale	43	39.45%	
Luxury	21	19.27%	
Resorts	9	8.26%	
Mixed-use/branded residential	3	2.75%	
Total Responses	109		20% 40% 60% 80% 100%







- Among the hardest hit sectors of the US hospitality industry, respondents rank the upscale sector as the most attractive opportunity (39 percent) for investors in the next 12 months, followed by midscale (28 percent) and luxury (19 percent).

7. FOR WELL-CAPITALIZED INVESTORS, DO YOU THINK THE CURRENT MARKET CONDITIONS HAVE NOW CREATED GOOD BUYING OPPORTUNITIES?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Yes	83	76.15%	
No	26	23.85%	
Total Responses	109		20% 40% 60% 80% 100%







- Providing further evidence of cautious optimism in the US hospitality industry, 76 percent of respondents think that current market conditions have created good buying opportunities for well-capitalized investors, up from 65 percent in 2009.

8. WHAT TYPES OF INVESTORS DO YOU EXPECT TO BE MOST ACTIVE IN THE US HOSPITALITY INDUSTRY IN THE COMING YEAR?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Foreign investors	23	21.10%	
Insurance companies	0	0%	
Pension funds	0	0%	
Private equity	63	57.80%	
REITS	18	16.51%	
Other (please specify)	5	4.59%	
Total Responses	109		20% 40% 60% 80% 100%




- For the second year in a row, the majority of respondents expect that private equity investors (58 percent) and foreign investors (21 percent), respectively, will be the two most active investors in the US hospitality industry.

9. WHAT TYPES OF LENDERS DO YOU EXPECT TO BE THE MOST ACTIVE IN THE US HOSPITALITY INDUSTRY IN THE COMING YEAR?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Commercial banks	23	21.70%	
Hedge funds	21	19.81%	
Investment banks	23	21.70%	
Mutual insurance/assurance companies	20	18.87%	
Pension funds	6	5.66%	
Other (please specify)	13	12.26%	
Total Responses	106		20% 40% 60% 80% 100%

- Compared to 2009, respondents' expectations for lending activity by investment banks and hedge funds spiked as they ranked investment banks as their top lender choice (tied with commercial banks), while hedge funds ranked third.
- Notably, this is quite a reversal from 2009 when hedge funds and investment banks ranked fifth and sixth (last).

10. DOES YOUR ORGANIZATION HAVE A HOTEL LOAN MATURING IN THE NEXT 12 MONTHS?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Yes	28	25.93%	
No	47	43.52%	
Not applicable	33	30.56%	
Total Responses	108		20% 40% 60% 80% 100%

- Only 26 percent of respondents report having a loan scheduled to mature during the next 12 months.

11. WHICH OF THE FOLLOWING BEST DESCRIBES YOUR OUTLOOK FOR THIS MATURING LOAN(S)?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Terms will be extended	10	38.46%	
Terms will be amended	7	26.92%	
Debt will be restructured	8	30.77%	
Loan will move into foreclosure	1	3.85%	
Total Responses	26		20% 40% 60% 80% 100%









- Of the small group of respondents that reports having a loan set to mature during the next 12 months, only 4 percent think this loan will move into foreclosure.
- These responses point to a strong (and perhaps unrealistic) optimism among borrowers that they will be able to work out or restructure their debt with their current lenders.

Note: This question was only made available to those respondents who answered “Yes” to question No. 10.

12. DO YOU EXPECT YOUR ORGANIZATION TO REFINANCE OR RESTRUCTURE ITS HOTEL DEBT IN THE NEXT 12 MONTHS?			
RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Yes	33	30.56%	
No	33	30.56%	
Not applicable	42	38.89%	
Total Responses	108		20% 40% 60% 80% 100%









- Among those with hotel debt, respondents are split evenly regarding what will happen to this debt in 2010: 31 percent believe it will be refinanced or restructured in the next 12 months, while 31 percent do not.

13. WHICH REGION REPRESENTS THE MOST ATTRACTIVE OPPORTUNITY FOR OUTBOUND US INVESTORS IN THE NEXT 12 MONTHS?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Brazil	34	37.36%	
China	26	28.57%	
Eastern Europe	5	5.49%	
India	17	18.68%	
Mexico	5	5.49%	
Middle East	1	1.10%	
Russia	0	0%	
Western Europe	3	3.30%	
Total Responses	91		20% 40% 60% 80% 100%



- Respondents identified Brazil (37 percent) and China (29 percent) as the most attractive foreign markets for US investors, followed by India (19 percent).
- Brazil’s top ranking was likely bolstered by respondents who view its recent selection as host for the 2016 Olympic Games and 2014 World Cup as a significant boost to the country’s hotel industry.

14. WHICH REGION WILL BE THE LARGEST INBOUND FOREIGN INVESTOR IN THE UNITED STATES DURING THE NEXT 12 MONTHS?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Brazil	3	2.97%	
China	60	59.41%	
Eastern Europe	1	0.99%	
India	5	4.95%	
Mexico	0	0%	
Middle East	17	16.83%	
Russia	1	0.99%	
Western Europe	14	13.86%	
Total Responses	101		20% 40% 60% 80% 100%



- An overwhelming 59 percent of respondents anticipate China to be the largest inbound foreign investor in the United States during the next 12 months.
- This strong preference for China was likely fueled by December’s well-publicized joint venture between Shanghai’s Jin Jiang Hotels and US-based Thayer Lodging to acquire Interstate Hotels & Resorts.

15. BETWEEN THE UNITED STATES AND WESTERN EUROPE, WHICH REGION’S HOSPITALITY INDUSTRY DO YOU THINK IS SHOWING SIGNS OF A FASTER RECOVERY?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
United States	55	52.88%	
Western Europe	49	47.12%	
Total Responses	104		20% 40% 60% 80% 100%



- By a small margin, respondents believe the US hospitality industry (53 percent) is showing signs of a faster recovery than Western Europe (47 percent).

16. DO YOU THINK THAT INVESTMENT ACTIVITY IN "GREEN" CERTIFIED HOTELS/SUSTAINABILITY WILL CONTINUE AS A LONG-TERM TREND?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Yes	89	81.90%	
No	19	18.10%	
Total Responses	105		20% 40% 60% 80% 100%

- 8 out of 10 respondents think that investment activity in green hotels will continue as a long-term trend, perhaps drawing parallels to the long-term investments they have made to their properties in this area.

17. DO YOU THINK "GREEN" CERTIFIED HOTELS ARE DRIVING CONSUMER CHOICE?

RESPONSES	COUNT	%	PERCENTAGE OF TOTAL RESPONDENTS
Yes	25	22.94%	
No	84	77.06%	
Total Responses	109		20% 40% 60% 80% 100%

- Despite the fact that the overwhelming majority of respondents (82 percent) believe that investment activity in “green” hotels will continue as a long-term trend, only 23 percent think green hotels are currently driving consumer choice.
- Rather than looking at the bottom line, these responses seem to suggest that the US hospitality industry has largely approached sustainability on its merits alone, discounting the financial performance of green hotels in the near-term.



METHODOLOGY

In January of 2010, DLA Piper distributed a survey via email to top executives within the hospitality industry, including CEOs, COOs, CFOs and other senior executives, which was completed by 109 respondents.

Question No. 2 was only made available to those respondents who described themselves as “bullish” in Question No. 1.

Question No. 3 was only made available to those respondents who described themselves as “bearish” in Question No. 1.

Question No. 11 was only made available to those respondents who answered “yes” in Question No. 10.

Due to rounding, all percentages used in all questions may not add up to 100 percent.



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